

Q&A at IR Briefing for Financial Results for the First Quarter  
of Fiscal Year Ended March 31, 2021

July 30, 2020

NEC Networks & System Integration Corporation

Questioner A

Q: Orders received increased about 10 billion yen in the first quarter from the same period of the previous year, and it seems that large orders from educational institutions were received particularly in Digital Solutions (“DSL”). How did orders in DSL contribute to the growth in orders received?

A: Orders from educational institutions were largely related to the GIGA School project, which contributed to approximately 6 billion yen company-wide and 4.5 billion yen in DSL.

Q: The forecast for the second quarter (three months) after subtracting the result for the first quarter from the forecast for the first half of the fiscal year suggests that profit will decrease in Network Infrastructures (“NWI”) and Engineering & Support Services (“ESS”). What impact do you expect COVID-19 to have on the business?

A: We expect that COVID-19 will reduce sales in NWI by approximately 200 million yen and in ESS by 1 billion yen, which is expected to have a slightly negative effect on profit in NWI and reduce profit in ESS by about 300 million yen in the second quarter (three months).

Questioner B

Q: Orders received in DSL grew substantially. What is the status of orders other than those from educational institutions?

A: Besides orders from educational institutions, orders for workstyle innovation continued to grow significantly.

By industry, while orders from the financial service industry increased, those from the manufacturing and service industries decreased year on year. Although there was concern that investment would fall in the hotel industry, from which large orders had been received in the last several years, due to the impact of COVID-19, no significant impact was evident in the last first quarter. In our case, orders from hotels consist largely of luxury facilities, and we assume that those are capital expenditure based on long-term plans and will not have a significant impact.

Q: You stated that the manufacturing and service industries were already showing

signs of a slowdown. What are your prospects for the future environment for receiving orders?

A: While we do not expect that investment in the manufacturing and service industries will be resumed soon, there are considerable opportunities in the business for educational institutions such as GIGA School. In addition, in view of measures against COVID-19, we expect that inquiries for teleworking using Zoom and other systems and solutions, such as distributed work, will increase.

Q: How do you define the impact from COVID-19? What are the risks that you expect to face from now on?

A: The impact of COVID-19 includes the consequences of suspending on-site operations in April and May, which are being gradually resumed. Although we do not expect to see any more significant impact if the current condition continues, we are assuming a decrease of 1 billion yen (in elimination) company-wide as the risk of resurgence of COVID-19.

Q: You incurred expenses for office realignment in the previous fiscal year. How much do you expect the growth expenses to be during the current fiscal year?

A: Approximately 2 billion yen out of the growth expenses of 5 billion yen in the previous fiscal year was temporary expenses for office realignment. Excluding that, we are considering the addition of approximately 4 billion yen to growth expenses, which would total 7 billion yen this year. That includes approximately 1 billion yen for DSL, slightly more than 1 billion yen for NWI, slightly less than 1 billion yen for ESS, and approximately 4 billion yen for the entire company.

Q: NESIC has already implemented advanced workstyles. An increase in teleworking and distributed work from now on is expected to cause office downsizing in central Tokyo, which may result in a decrease in rents for real estate. What are your prospects for future needs of customers and real estate trends in view of cost reduction?

A: Although our distributed work mainly aims to facilitate employees' well-being and not to reduce office rents, a decrease in rents can be expected by downsizing offices in central Tokyo as a result. Some customers are paying attention to our distributed work for the appeal of measures against COVID-19 combined with cost reduction.

Questioner C

Q: As for the growth potential of DSL, in the past you mentioned that resources were increasingly restricted. What is your outlook for the next fiscal year and thereafter in terms of whether sales growth could be maintained using the

current resources? How about trends related to DX?

A: Orders related to DX received during the first quarter amounted to approximately 3 billion yen and we are aiming for a total of 9 billion yen during the current fiscal year (up 3 billion yen year on year).

In the aspect of resources, we are working to shift DSL to types of services that will not easily rely on the number of SEs. In the process of business change, however, sales growth may temporarily become moderate.

Q: The operating margin of NWI is expected to decline in your financial forecasts. What is in the background of this? Do you intend to maintain the current level of profit margin in the next fiscal year and thereafter?

A: The most significant cause of a fall in profitability is an increase in growth expenses particularly for 5G communication, which will start in the current fiscal year. While we will continue to realize the effects of reorganization, operating income for the current fiscal year will remain unchanged year on year due to the plan to raise nearly 1 billion yen of growth expenses from the amount in the previous fiscal year and, as a result, profit margin is expected to decrease. Although prospective businesses such as 5G and local 5G will be added in and after the next fiscal year, we do not expect to see improvement in profitability soon.

Questioner D

Q: I assume that you have been acquiring new customers through Zoom. What is the status of cross-selling and upselling to such customers?

A: As you mentioned, we expect Zoom to expand in terms of need for distributed work and related businesses and are currently acquiring new customers. At present, we are allocating all of our time for selling the license and have yet to start specific activities to develop new businesses from such customers. We will implement these activities as soon as we are able.

Q: Did the business of KNSI, a joint venture with KDDI, steadily grow during the first quarter? What is the status of the telecom business?

A: In addition to the steady growth of KNSI, orders received in the telecom business increased substantially, or approximately 50% year on year, partly thanks to a large order for a submarine seismometer system that would use technologies for submarine cables.